A REPORT PRESENTING

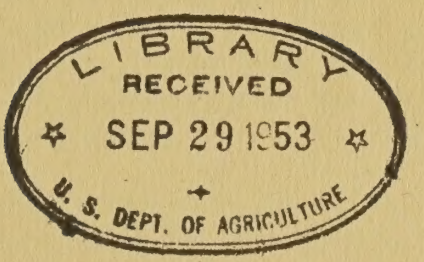
RECOMMENDATIONS PERTAINING TO THE ANALYSIS FOR FEASIBILITY OF LOAN APPLICATIONS FROM DISTRIBUTION-TYPE BORROWERS

Submitted June 30, 1953

To The Administrator

By the
Electric Feasibility Committee:

Dr. H. S. Person, Chairman
John H. Rixse, Jr., Vice-Chairman
George A. Lewis
Everett R. Brown
William P. Riley
Frederic R. Hamlin
William P. Nixon
Edward F. Wilson
Wade M. Edmunds



A Report Presenting Recommendations Pertaining to the Analysis For Feasibility of Loan Applications From Distribution-Type Borrowers

This report presents a series of recommendations based on studies of all aspects of the analysis for feasibility of loan applications from distribution-type borrowers. All studies have not been conclusively analyzed; therefore, some recommendations are for continued study.

The origin of the Committee, its assignments, membership and method of procedure are set forth in Exhibits 1, 2 and 3 of the Appendix.

This report is divided into four parts:

A. General recommendations and observations
B. Specific recommendations following the outline of analysis on Form AL-51B (Exhibit 4)
C. General suggestions and observations concerning the documentation and presentation of loan recommendations
D. Appendix

These recommendations have not been tested concurrently on representative cases, however, the individual recommendations have been applied and tested for general affect, indicating

(1) more logical approach
(2) more appropriate weighting to individual borrower experience
(3) more nearly uniform use of the same data for all purposes in REA

A - General Recommendations and Observations:

1. A revised manual of detailed instructions should be prepared for use of persons having responsibilities in the examination of loan applications, the preparation of loan recommendations, the furnishing of supporting or analytical data and the review of loan recommendations.

2. Every additional administrative step possible should be taken to strengthen and simplify feasibility analyses of loan applications. This should be a continuing process which is very important to both REA and the borrowers.

3. REA Form 740-B (Exhibit 5) which is being circulated with proposed REA Bulletin 20-2, should be approved, with necessary clarifications, as being the best breakdown of consumers by classification and means of obtaining the necessary basic consumer data from the applicant.

4. An engineering study, adequate to support each loan application, should be available. Such a study should be based on long-range system engineering plans, which conform to the official kwh estimates, reviewed every two years, and revised as necessary.

5. The Area Office should confer with the Power Division, and both offices should strive to assure insofar as possible, the most economical and effective use of generating facilities, owned by the distribution-type borrower, and of the combined facilities when the distribution-type borrower is a member of a power-type borrower.

6. Each loan recommendation should include a statement by the Operations Specialist giving the trend, management characteristics and present financial position together with his judgment as to the future of the borrower.

7. Each loan recommendation should include a statement by the Area Engineer outlining the condition of the borrower's plant, the quality of service available to its members, the borrower's program to assure adequate plant condition and service continuity and any unusual engineering, construction, technical operations or maintenance considerations which may have a bearing on loan security.

8. For any borrower which does not meet the following criteria, there should be, in addition to the feasibility study supporting the specific loan recommendation under consideration, a feasibility-type study showing the probable financial conditions, based on estimated usages and members, ten years hence:

   (1) Where the feasibility study supporting the specific recommendation shows excess revenues less than 1% of loans

   (2) Where debt service earnings for each of the past three consecutive calendar years are not in excess of 100% or do now show a favorable trend with the latest year exceeding 100%.

9. Intensive study should be continued to permit a determination other than by the means of a system study, of the cost of providing system capacity adequate to handle increased usages which are in the range of, or higher than, those blocks in the retail rate structure which are very close to the cost of power.

10. Since energy usages certified by the Program Analysis Division are based largely on historical data, they reflect current retail rate structure; therefore, whenever a change in retail rate

structure is contemplated, the facts should be provided to the Program Analysis Division for adjustments, if any, in the certification of the estimated energy usages.

11. The year for which estimated energy usages are selected for feasibility studies should fall within a period at least five years and not more than seven years from the year in which the feasibility study is being made. This should be a firm requirement with deviation permitted only when specifically and fully justified. When a distribution-type borrower is a member of a power-type borrower, special attention must be paid to adequate coordination with power-type borrower studies and engineering design requirements.

B - Specific Recommendations Following the Outline of Analysis on Form AL-51B (Exhibit 4):

Although absolute conformance to the outline of analysis on Form AL-51B is not practicable, its use as an outline for this report does reflect present practice and best illustrates the nature of the changes reflected by the recommendation.

Estimated Average Annual Receipts (Item (D), Form AL-51B:

1. For a loan to serve an entirely new area, the number of consumers considered as revenue producing should be the number of signed consumers plus an estimate of the number of potential consumers within 5000 feet of the proposed lines. For the potential consumers, the practice of estimating 50%, as stated in Administrative Bulletin 75-R1, should be continued. If an acquisition is involved, recommendations 2 and 3 below, pertaining to supplemental loans, should apply.

2. For supplemental loans, the estimated number of consumers considered as revenue producing should be built up from the number of consumers now being served. To the number of billed consumers should be added the number of non-permanent idle services which it is reasonable to assume will be reconnected (based on the borrower's analysis and taking into account local conditions), the number of consumers to be connected with existing loan funds (including construction work in progress), and the number of new consumers being added by the proposed loan. A "permanently idle" service is construed to mean a service for which there is no potential, such as an uninhabitable place, an exhausted resource or an abandoned facility.

3. The average number of services which the borrower reasonably expects to be idle under normal conditions in its system area (see item 12, proposed REA Form 740-B) should be added as a note

on lines (D) (8) Form AL-51B, with no revenue being assumed therefrom, and all columns, except column 1, being left blank.

4. The Area Offices should have primary responsibility, in collaboration with the borrowers, for estimating the number of consumers. Whenever a power requirement study or field appraisal is required, the Program Analysis Division should collaborate with the Area, check these estimates of consumers and advise the Area Office of its recommendations. Such estimates should be reviewed periodically and revised as necessary.

5. Revenue from long-term large power consumers should be computed on the basis of the estimated usages and demands certified by the Program Analysis Division and the applicable rate schedule.

6. Revenue from short-term large power consumers should be computed on an individual basis insofar as the estimated usages and demands, rate schedule and duration of revenue are concerned. The loan recommendation packet should include a memorandum, initiated by the Loans Specialist and concurred in by the Retail Rate Specialist and the Operations Specialist, presenting figures pertaining to the large power load, its affect on feasibility of the borrower, and pertinent points relative to rates, investment required, termination conditions, etc.

7. The current five and ten percent slippages now being used in the application of retail rate calculations for the determination of revenues should be discontinued. Instead, the retail rate calculation tables developed by the Retail Rate Specialist and which are based on actual experience and data should be used, not only for feasibility studies, but for all determinations of revenue in REA.

8. The retail rate calculation tables should be reviewed periodically by the Retail Rate Specialist to assure conformity with continued experience.

Estimated Average Annual Expenditures (Item (E), Form AL-51B):

9. In the calculation of expenses by the application of ratios or percentages to the value of physical plant, the total base plant value to which the ratios or percentages are applied should be the book value of total utility plant (item 4, REA Form 7), less the amount provided for reimbursement in the proposed loan recommendation of general funds in plant, plus 95% of all unadvanced loan funds, plus 95% of the proposed loan, plus 95% of general funds to be invested in new facilities, and appropriate adjustments for 100% of the book value of proposed acquisitions. If the calculated total base plant value is less than 95% of all loans,

including the proposed loan recommendation, the Area Office should initiate special analyses prior to proceeding with the feasibility study, and include the analyses together with justification if the lower value is used in the feasibility study.

The above method of determining total plant also applies to each part of plant, e.g., transmission, substations, distribution, headquarters and warehouse facilities and production facilities; however, with respect to production facilities, we recommend further study and determination of possible improvements.

It is further recommended that appropriate work sheets and instructions be developed to implement these calculations.

10. Form AL-51B, lines (E) (1) through (E) (7), should be revised to be as follows:

(E) - Estimated Average Annual Expenditure

	Plant Value		Expenses
(1) Transmission line (_____mi.)*	$_____	Gen. Adm., Oper. & Maint. @ ____/mi.	$_____
(2) Substations (___kva)*	$_____	Gen. Adm., Oper. & Maint. @ ____/kva	$_____
(3) Distribution (excl. of substations)	$_____	Gen. Adm. @ 2% **	$_____
(4) " " " "		Oper. & Maint. @ 2%	$_____
(5) Headquarters and warehouse facilities	$_____	Maintenance @ 1%	$_____
(6) Total plant (excl. of generation) ***	$_____	Replacement @ 1% of total plant	$_____
(7) Total expenses for general administrative, operation, maintenance and replacement			$_____

*When more than one transmission voltage class is applicable, explanatory footnotes should be provided

**Includes operating and general administrative expenses for headquarters and warehouse facilities

***All costs of generation are expressed in the cost of power

11. The Committee recommends continued use of 1% of plant, as defined in item 9, for estimating replacement expense for distribution, headquarters and warehouse facilities and its use also for estimating replacement expense for transmission lines and substations, pending further study.

12. Expenses for transmission lines, substations and buildings for distribution-type borrowers should be estimated on the same basis, using the same factors and percentages, as for power-type borrowers.

13. Operations, maintenance and general administrative expenses should be combined and computed for transmission lines and for substations using the following factors which should be subject to periodic review:

Voltage Class KV	Substations Dollars per KVA	Transmission Lines Dollars per KVA
34.5	$0.70	$65.00
46	0.75	69.00
69	0.80	80.00
115	0.80	90.00
138	0.80	110.00
154	0.70	140.00

14. Maintenance expense of headquarters and warehouse facilities should continue to be estimated at 1% of their plant value. The operating and general administrative expenses relating to these facilities is considered to be included under the estimate for general administrative expenses based on the value of distribution plant (see footnote on recommendation 10 above).

15. A combined estimate for operations and maintenance of distribution plant is recommended because experience shows that maintenance expenses are frequently charged to operations and vice versa; therefore, one estimate for the combined expenses will be more realistic.

16. Studies and analyses are not complete and should be continued toward improved methods and more realistic factors or percentages for estimating operations, maintenance and general administrative expenses in feasibility studies for distribution plant. In the meantime, the following deviations from the standard percentages (1% - operation, 1% - maintenance, 1% - replacement, and 2% - general administrative) of Administrative Bulletin 75-R1 may be considered.

    a. For those cases which a borrower's previous five years' experience is less than a combined 4% for operations, maintenance and general administrative expenses, actual experience, but

in no case less than a combined 3% for these three factors, may be used if specially justified on the basis that the expense is reasonable, the borrower's facilities have been so maintained and operated as to be in a satisfactory condition, despite the low amount charged to these expenses, and such a level of expenses is reasonably expected to continue over the life of the loan.

b. For those cases which a borrower's previous five years' experience is more than a combined 4% for operations, maintenance and general administrative expenses, actual experience should be used for that borrower. For such borrowers as do not meet the following criteria there should be included with the feasibility study a statement from the Operations Specialist analyzing the causes of such high expenses, possibilities of their reduction and steps being or to be taken by the borrower to reduce the expense:

(1) Where the feasibility study supporting the specific recommendation shows excess revenues less that 1% of loans.

(2) Where debt service earnings for each of the past three consecutive calendar years are not in excess of 100% or do not show a favorable trend with the latest year exceeding 100%.

17. Intensive study should be continued with a view toward elimination of the errors arising from the present practice of calculation which assumes that payments on all prior debts continue throughout the same loan period as the new debt. The new procedure should eliminate notes from debt service calculations when such notes are fully paid up, should give credit to advance payments and cushion of credit payments made in excess of reserve requirements, and should take into account delinquencies.

18. Intensive study of the ways and means of improving the scheduling of amortization payments should be continued in view of the fact that the present method of scheduling debt repayment without reference to general experience and increase of revenues may be responsible for delinquencies on the part of borrowers.

19. Taxes and insurance should be estimated in the feasibility study on the basis of the actual experience of the borrower, the trend inherent in that experience and changes that are indicated. It should be the responsibility of the Area Office to obtain from the borrower appropriate data on taxes and insurance.

20. KWH consumption, line (E) (11), Form AL-51B, is the total of the column marked "Total KWH" under (D) Estimated Average Annual

Receipts which data should be computed in accordance with our recommendations A-10, B-1 and B-2 of this report.

21. Methods of determining system energy losses, to be inserted in line (E) (11), Form AL-51B, should be uniform and applicable to all purposes in REA. This recommendation has previously been made by memorandum from the Committee to the Administrator, was approved, and Staff Instruction 45-1 subsequently issued.

22. When the power source is a non-REA borrower, the estimated cost of power, to be used on line (E) (13), Form AL-51B, should be calculated on the rates and terms of an approved wholesale power contract and the estimated power requirements of the borrower which are the basis of the feasibility study. When an approved wholesale power contract does not exist for either part or all of the power required by the borrower and on which the feasibility study is based, then a complete statement of the estimated cost of power, setting forth all calculations, assumptions and justifications therefor based on known or anticipated conditions, should be included with the feasibility study.

23. When a power source is an REA borrower, either self-generation or from another borrower, the estimated cost of power, to be used on line (E) (13), Form AL-51B, should be computed on the basis of the power requirements of the distribution-type borrower on which feasibility is based. The cost should be as determined by a power cost study which reflects experience and the practices of the power-type borrower in its establishment of rates to be charged member borrowers, e.g., with respect to reserves or other similar charges. The power cost should also reflect all purchases by the distribution-type borrower from other sources on either an interim or long-term basis.

C - Miscellaneous - Observations and Suggestions:

Each loan recommendation (narrative) should among other things, include the following:

1. A tabulated comparison of monthly energy usages by classes of consumers in:

   a. The last loan
   b. The present loan
   c. The previous twelve months

   and the weighted average over-all consumptions for all classes of consumers for:

   d. The previous twelve months
   e. The maximum monthly average for previous twelve months.

2. An analysis of idle services, both temporary and permanent.

3. A tabulation of unadvanced loan funds and an analysis of the expected usage by the borrower of those funds.

4. A summary of the analyses by the Operations Specialist and the Area Engineer of the borrower's operations, financial, managerial, plant conditions and quality of service, based on information available in REA. Supporting data should be included with the recommendation.

5. The date and general purpose of the last loan.

6. A justification of the funds being provided for increasing system capacity, together with a description of the facilities and when it is expected that the borrower will utilize the funds.

APPENDIX

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EXHIBIT NO. 2

Committee - Origin, Organization, Method of Procedure and Scope:

Members: Dr. H. S. Person, Chairman
John H. Rixse, Jr., Vice-Chairman
Everett R. Brown
George A. Lewis
William P. Riley - Chairman, Associate Committee on Optimum Year
Frederic R. Hamlin - Chairman, Associate Committee on Ratios
William P. Nixon - Chairman, Associate Committee on Retail Rates
Wade M. Edmunds - Chairman, Associate Committee on Engineering Factors
Edward F. Wilson - Chairman, Associate Committee on Debt Burden Calculations

The Feasibility Committee was established by memorandum (Exhibit No. 1) dated May 20, 1952 from Deputy Administrator Wm. C. Wise to the first four individuals named above. The memorandum requested an analysis, clarification and improvement in our present procedures regarding feasibility studies for distribution-type borrowers and "allocated loads", as related to generation and transmission planning.

Subsequently, Administrator Claude R. Wickard further requested the Committee, through its Chairman, to undertake a study of methods by which feasibility or non-feasibility is established with a view toward recommending improvements, all related to electrification loans. Since a power-type borrower's feasibility is dependent on the feasibility of its members, the Committee concentrated its assignment on analysis for feasibility of loan applications from distribution-type borrowers.

Owing to the many changes incident to the reorganization effective July 1, 1952, the Committee held action in abeyance until September 22, 1952, at which time it reviewed the scope of the Committee's assignments and agreed on a manner of procedure, including the utilization of associate committees to study and analyze the details of various facets of the problems. These associate committees are as follows:

Associate Committee On	Date Established
A - Optimum Year	November 26, 1952
B - Ratios	Initially set up November 26, 1952 by incorporation of a working group already functioning under the Executive Officer, but owing to the work load problem, this had to be abandoned and a new committee was established March 4, 1953

C - Retail Rates Applications December 29, 1952
D - Debt Burden Calculations January 7, 1953
E - Engineering Factors January 7, 1953

The approach of the Committee was to survey the scope of its assignments, identify the details or factors which should be considered, and then, by means of associate committees manned by individuals conversant with the techniques and administration of these factors, proceed to analyze, study and develop specific recommendations. This meant that most of the work of the Committee was undertaken through Associate Committees, members of which already had full-time regular assignments. The Associate Committees reported their progress and interim findings and, through the medium of the full Committee, coordination and correlation was attained.

Since the two assignments were so closely related, the Committee proceeded to handle them as one. This report, however, pertains only to the assignment from Mr. Wickard. A separate report is being submitted on the assignment from Mr. Wise.

The factors determined by the Committee in its over-all review of the Committee's assignments are identified below. This listing segregates the revenue and expense factors. Each factor has been identified by a number; a descriptive title given it; and the Associate Committee assigned to study it is identified as above.

Number	Item	Associate Committee Assigned (See Appendix No. 1)
Revenue Factors		
I	Selection of energy usages to be used in feasibility studies	A
II	Estimating the number of consumers by class	C
III	Treatment of large power consumers and associated rates	C
IV	Application of slippage	C
V	How much should be provided in the last block of the rate structure to cover required system improvements	E
VI	Consideration of the affect of the retail rate structure on estimated consumption	C
VII	Assumption of revenue from idle services, i.e., services for which loan funds have been provided and facilities installed from which revenue is not being obtained	C

Expense Factors

VIII	Study of operating ratios for operation, maintenance, replacement and general administration	B
IX	Determination of value of depreciable property against which ratios are applied	B
X	Method of calculating debt burden	D
XI	Study on rescheduling amortization payments	D
XII	Power costs	C
XIII	Load factor - determination and application	C
XIV	System energy losses	E
XV	Determination operation, maintenance, replacement and general administrative expenses for transmission lines, substations and buildings	E
XVI	Application of taxes and insurance	B

General Factors

XVII	Coordination of energy requirements in feasibility studies for distribution and power-type borrowers	A
XVIII	Analysis and evaluation of improved methods of handling requests for reimbursement of general funds	D

EXHIBIT NO. 3

Members and Assignments of Associate Committees

A - Associate Committee on Optimum Year

Members: William P. Riley - Chairman - (Pwr. Div.)
O. W. Briden (Engineering Division)
Kenneth O. Peters (Pwr. Req. Sec., Program Analysis Division)
John H. Scoltock (Engineer, Southeast Area)
Henry J. Holmes (Operations Division)
Kenneth N. Hardy (Loans Specialist, Western Area)

Assignments

1. Determination of energy usages to be used in feasibility study.
2. Coordination of energy usages in feasibility studies for distribution and power-type borrowers (NOTE: The purpose is to determine the optimum year or band of years for which the energy usages should be selected. For guidance it was deemed that answers to the following questions would be pertinent:

   a. What is the optimum year or band of years for planning, to secure reasonable and economical use of funds and facilities?
   b. How far into the future is it reasonable or necessary to provide loan funds to accomplish system improvements on an orderly and systematic basis?
   c. If an optimum year or band of years is established, what criteria and methods would be logical to permit deviation?)

B.- Associate Committee on Ratios

Members: Frederic R. Hamlin - Chairman - (Operations Spec., Western Area)
Harold A. Whittle (Operations Spec., North Central Area)
Howard V. Killion (Loan Review Section)
R. E. Cole (Engineer, Southwest Area)
T. Coleman Farrell (Loans Spec., Southeast Area)
William P. Nixon (Operations Section)

Assignments:

1. Study of operating ratios.
2. Determination of value of depreciable plant to which operating ratios are applied.
3. Application of taxes and insurance.

EXHIBIT NO. 3

C - Associate Committee on Retail Rate Applications

Members: William P. Nixon - Chairman (Operations Division)
W. W. Arnett (Retail Rate Section, Operations Division)
Thomas T. Ronan (Adm. Asst., Operations Sec., Southeast Area)
Daniel J. Hammond (Loan Examiner, North Central Area)

Assignments:

1. This Committee was to examine the entire field of retail rate applications and to correlate the various methods used in feasibility studies, rate studies, power cost studies and management analyses, including the following details:

   a. Estimating the number of consumers by classes.
   b. Load factor - determination and application.
   c. Power costs.
   d. Application of slippage
   e. Treatment of large power consumers and associated rates.
   f. Assumption of revenue from idle services.
   g. Consideration of the effect of the retail rate structure on estimated consumption.

D - Associate Committee on Debt Burden Calculations

Members: Edward F. Wilson - Chairman (Asst. Chief, Operations Div.)
Keith H. Kittle (Accounting Spec., Div. of Controller.)
Robert D. Partridge (Asst. Chief, Program Analysis Division)

Assignments:

1. The primary assignment is to study methods of improving and easing calculations of debt repayment burden in feasibility studies.
2. Analysis and evaluation of improved methods of handling requests for reimbursement of general funds.
3. A secondary assignment is to study and try to improve actual repayment (amortization) schedules and their effect on borrower's operations.

E - Associate Committee on Engineering Factors

Members: Wade M. Edmunds - Chairman (Asst. Chief, Engineering Div.)
W. W. Arnett (Retail Rate Section, Operations Division)
George K. Ditlow (Operating Problems Section)

Assignments:

1. System energy losses.
2. Development of operation, maintenance, replacement and general administrative expenses for transmission line, substation and headquarters buildings.
3. Development of a factor or formulae to approximate in dollars per kwh, or dollars per kw, the amount that must be provided in last block of retail rate schedule to cover system improvements to handle installation of increased capacity.

A REPORT PRESENTING

RECOMMENDATIONS PERTAINING TO THE COORDINATION OF ANALYSES AND STUDIES WHICH ARE THE BASES FOR LOAN RECOMMENDATIONS FOR DISTRIBUTION-TYPE AND POWER-TYPE BORROWERS

Submitted June 30, 1953

To The Administrator

By the
Electric Feasibility Committee:

Dr. H. S. Person, Chairman
John H. Rixse, Jr., Vice-Chairman
George A. Lewis
Everett R. Brown
William P. Riley
Frederic R. Hamlin
William P. Nixon
Edward F. Wilson
Wade M. Edmunds

A Report Presenting Recommendations Pertaining to the Coordination of Analyses and Studies Which are the Bases for Loan Recommendations for Distribution-Type and Power-Type Borrowers

This report presents a series of recommendations based on a study of the problems involved whenever analyses or studies are undertaken which involve generation facilities of distribution-type borrowers, facilities of power-type borrowers or the cost of power to distribution-type borrowers which are members of a power-type borrower. One of the most frequent problems is that of "allocated load," which is the estimated total energy requirement which was the basis of the feasibility study of one or of a group of distribution-type borrowers. Related problems exist in the design and construction of facilities. Basically the problem is two-fold: (1) having reasonable and relatively uniform criteria for selecting energy usages on which to base feasibility analyses of distribution-type borrowers, and (2) administrative coordination, both in REA and between the borrowers concerned, to assure maximum mutual benefits and security to the borrowers and to the Government.

The procedural, analytical, and other administrative considerations in the coordination of analyses and studies involving loans, to both distribution-type and power-type borrowers, are influenced to a great extent by legal requirements. These requirements necessitate complete integration and correlation of the power requirements and energy usages for both types of borrowers. This is particularly significant when distribution-type borrowers are members of power-type borrowers. It is reasonable for the power-type borrowers' facilities to be studied, designed, and constructed in accordance with good industry practices; however, generating facilities, e.g., can be constructed only for capacity equal to the estimated requirements of the member borrowers or such margins as would be acceptable practice in the industry based on the loads of the members. It is also necessary that adequate loan funds be available for member distribution-type borrowers to permit the design and construction of facilities adequate to receive and distribute the power made available by the power-type borrowers.

The Committee felt that after its discussion of these problems with Mr. K. W. Blackburn, Associate Solicitor, its recommendations should not assume any new legal interpretations, although this bears further review. It is in this light that the following recommendations and observations are presented:

1. The Area Office should confer with the Power Division and both offices should strive to assure, insofar as possible, the most economical and effective use of generating facilities, owned by the distribution-type borrower, and of the combined facilities when the distribution-type borrower is a member of a power-type borrower.

2. It is highly desirable that energy usages for all distribution-type borrowers which are members of a power-type borrower be estimated for the same future year. Whenever possible this should be done. However, if our recommendation A-11, page 3, in the report presenting "Recommendations Pertaining to the Analysis for Feasibility of Loan Applications from Distribution-Type Borrowers" is adopted, then that will be the most practical solution.

3. Each power cost study (or loan recommendation if one is involved) for generating facilities of a distribution-type borrower or for facilities of a power-type borrower, should include a copy of a feasibility study on Form AL-51B for each of the distribution-type borrowers concerned utilizing the same energy usages and power costs that are in the power cost study. When the usages in the feasibility studies differ from those in the last loan to the distribution-type borrower, the differences should be explained; and if in excess of the usages in the last loan, the amount of funds which must be earmarked for loan to the distribution-type borrower to permit adequate distribution of the power received from the power-type borrower or the generating facilities should be stated.

4. These recommendations should result in better operations of REA. However, improved operation will result if problems, such as the following, are given further study:

   a. Implementation of these recommendations and subsequent findings through staff instructions.

   b. Ways and means of achieving agreement and uniformity between the member distribution-type borrowers and between the members and the power-type borrowers regarding:

      (1) "Allocated loads,"
      (2) A firm policy to achieve full and most economical use of facilities to be provided by each,

      in order to achieve the most reasonable and equitable cost of power to the member distribution-type borrowers.

   c. Development of criteria for consideration of a power-type loan with respect to requirements to be met by the distribution-type borrowers which are similar to the requirements which the distribution-type borrower would have to meet for its own loan.

d. Development of an REA Bulletin and Staff Instruction setting forth policy, criteria, procedures, and related details for consideration of a power-type borrower loan with this Bulletin and Staff Instruction being correlated with Administrative Bulletin 75-R1, "Determination of Economic Feasibility of Proposed Loans to Distribution Borrowers," or revision thereof.

For full details pertaining to the Committee, its origin, organization, method of procedure, scope and membership, please refer to Exhibits 1, 2, and 3 in the Appendix of the report presenting "Recommendations Pertaining to the Analysis for Feasibility of Loan Applications from Distribution-type Borrowers" dated June 30, 1953.

Attachment - Memorandum from Deputy Administrator Wm. C. Wise to Dr. H. S. Person dated May 20, 1952, with footnote added by Dr. Person summarizing instructions of Administrator Claude R. Wickard.